

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Australia

Cotton and Products Annual

2012

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Report Highlights:

Total cotton production for 2012/13 is forecast at a record 4.6 million bales, the same level as the revised estimate for 2011/12 production. Total exports for 2012/13 are forecast at a record 4.4 million bales, up nearly 5 percent from this year's record estimate of 4.2 million bales.

Executive Summary:

Cotton production for 2012/13 is forecast at 4.6 million bales, equivalent to this year's estimated record crop. An expected decline in planted area (specifically dry-land cotton area) is expected to be offset by an improvement in yield. Normal weather conditions are assumed in the lead up to planting the 2012/13 crop which is expected to commence in October/November 2012. At the time of the writing of this report, irrigation water storages are at, or near, full capacity. This is expected to see area planted to irrigated cotton increase somewhat. However, area planted to dry-land cotton is expected to decline from the record levels evidenced in the previous year, to levels more reflective of the longer-term average.

Post's production estimate for the 2011/12 crop has been revised downwards from a previous estimate of 4.84 million bales to 4.6 million bales. Heavy rainfall and widespread flooding trimmed yield and slightly reduced planted area. This decline, however, is expected to be partially offset by exceptional dry-land cotton yields, which in the most extreme cases surpassed the yields of irrigated crops. Harvest of the 2011/12 crop will begin in earnest starting in April and run through June 2012.

Dry-land cotton production has traditionally only made a minor contribution to overall Australian cotton production. However, high prices and exceptional soil moisture at time of planting, is believed to have pushed planted area of dry-land cotton to record high levels in 2011/12. At the time of the writing of this report, soil moisture levels are excellent and if average weather conditions prevail in the lead-up to the planting of the 2012/13 crop, planting conditions should remain above average, despite falling below the excellent planting conditions experienced in 2011/12.

Commodities:

Cotton

Production, Supply and Demand Data Statistics

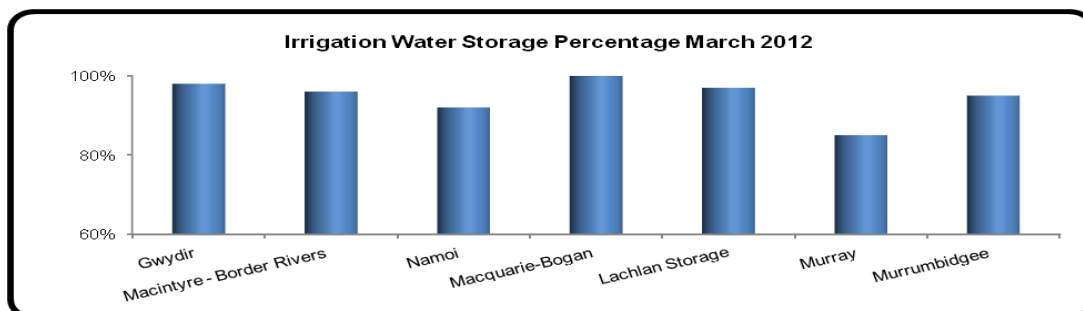
Cotton	2010/2011		2011/2012		2012/2013	
Australia	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0		0
Area Harvested	590	544	580	580		520
Beginning Stocks	749	749	2,550	2,550		3,060
Production	4,200	4,200	4,800	4,600		4,600
Imports	0	0	0	0		0
MY Imports from U.S.	0	0	0	0		0
Total Supply	4,949	4,949	7,350	7,150		7,660
Exports	2,509	2,509	4,000	4,200		4,400
Use	40	40	40	40		40
Loss	-150	-150	-150	-150		-150
Total Dom. Cons.	-110	-110	-110	-110		-110
Ending Stocks	2,550	2,550	3,460	3,060		3,370
Total Distribution	4,949	4,949	7,350	7,150		7,660

1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA

Planted Area

Total area planted to cotton in CY 2012/13 is forecast at 520,000 hectares, representing a 10 percent decline on the record 580,000 hectares now estimated for the previous year. Despite this significant decline, a crop of 520,000 hectares would still be considered well above the ten-year average and almost double the five-year average during the previous drought years. Growers are unlikely to shift significant area away from cotton to competing crops such as sorghum, as domestic feed grain supplies are at record levels.

A return to more normal weather conditions in the lead-up to 2012/13 is expected to see a sharp decline in the area planted to dry-land cotton, down from what is considered a record area planted in the previous year. Irrigated cotton planting however is expected to increase somewhat and is likely to partially constrain the fall in total planted area. At the time of the writing of this report, irrigation water storages used for growing cotton are either full or near full capacity for the first time in over a decade.



Source: MDBA Data

In southern NSW, irrigated cotton plantings are forecast to continue increasing significantly beyond the forecast period. The increase is expected to be driven by new growers who have never grown

cotton before or who have grown only small areas of cotton and are now growing larger areas. Many of these new cotton growers would previously have grown rice. A growing number of farmers have shifted to cotton production, as the introduction of biotech cotton has rendered the crop "easier" to grow than was the case for conventional cotton which typically required six to eight herbicide applications throughout the growing season.

Total area planted to cotton in 2011/12 is estimated at a record 580,000 hectares. This figure is supported by, what is believed to be, a record area planted to dry-land cotton. Although historical dry-land data are not available, record cotton prices and record rainfall are believed to have pushed dry-land cotton plantings to record levels in 2011/12.

Total area planted to cotton in 2010/11 has been revised downwards to 544,000 in line with recently published ABS data.

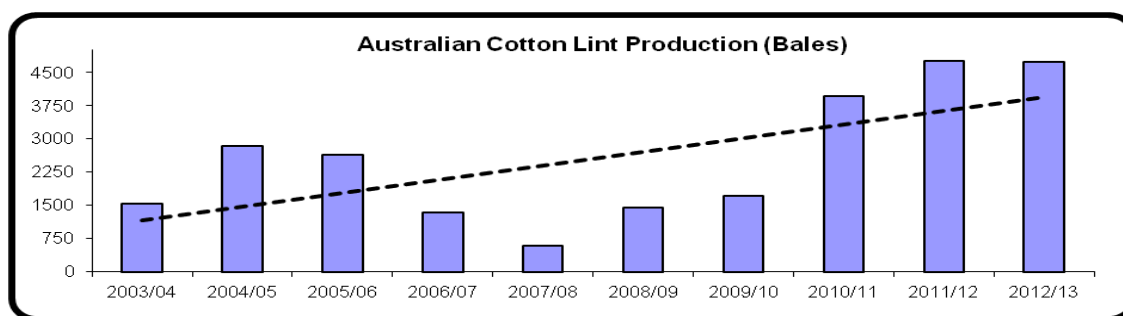
Yield

Post has assumed a 2012/13 yield of 8.8 bales per hectare, well above the 7.9 bales per hectare estimated for 2011/12. A return to more normal weather conditions, combined with ample irrigation water, should see 2012/13 yields improve significantly over those estimated for the previous year. If achieved in 2012/13, a yield of 8.8 bales would be considered slightly above average.

Yield for 2011/12 has been revised to 7.9 bales per hectare, well under the 8.6 bales per hectare originally forecast by Post and well under the ten-year average of 8.4 bales per hectare established using ABARES historical data. Heavy rainfall events which created widespread flooding, cooler weather and a lack of sunny days, combined to significantly reduce yield and slightly trim area. Early in the season, many key cotton growing districts expected yields to surpass 10.0 bales per hectare due to moisture availability; however unseasonably wet conditions and widespread flooding conspired to drag yields below those originally anticipated.

Production

Total cotton production for 2012/13 is forecast at 4.6 million bales, equal to the revised estimate of the record 4.6 million bales produced in the previous year. Reduced planted area in 2012/13 should be adequately balanced by improved average yield, assuming a return to more normal weather conditions.



Source: ABARES Data

A return to more normal weather conditions in the lead-up to (and during) 2012/13, would likely see moisture conditions for dry-land cotton planting decline to levels slightly above-average. At the time of the writing of this report, soil moisture is reported to be excellent. A return to more normal weather conditions over the next six months would likely see considerable remnant soil

moisture maintained and this would likely place planting conditions at slightly above-average, but well below the excellent conditions experienced in year previous.

Estimated production for 2011/12 has been revised downward slightly to 4.6 MMT. Despite this downward revision, this estimate remains an all time record, and was buoyed by record dry-land cotton production. Heavy rainfall, widespread flooding, cloudy conditions and a slight reduction in area combined to trim yields by around one bale per hectare in most cases. Excellent soil moisture throughout 2011/12 led many sources to believe that production would likely surpass 5.0 million bales; however a lack of warm dry weather in the second half of the season greatly diminished yield potential.

Exports

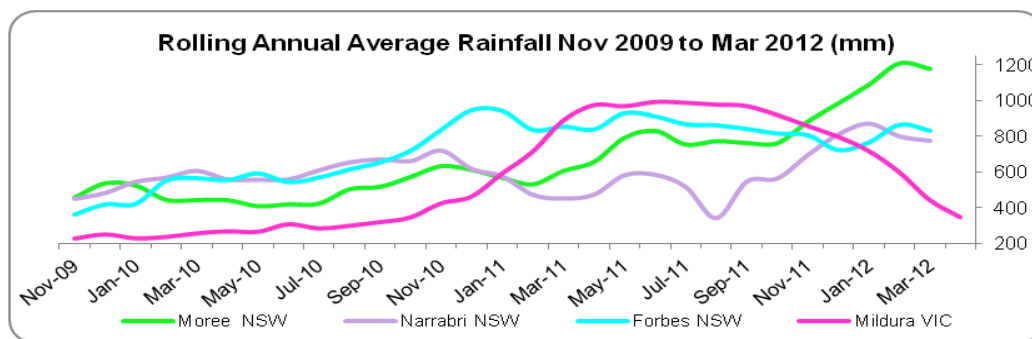
Total exports for 2012/13 are forecast at a record 4.4 million bales, up about 5 percent from this year's estimated record exports of 4.2 million bales. The expected increase is attributed to continued strong export demand and improved domestic availability.

Recent field travel undertaken by Post has revealed increased cotton processing capacity, specifically in southern NSW where much of the "newly developed" cotton plantings are occurring. This increase in processing capacity, together with improved production and carry out stocks, will likely see exports increase to new record levels in 2012/13.

A potential threat to achieving the forecast record high cotton exports is the persistent high value of the Australian dollar which, for the majority of the 2011/12 season, has remained higher than the value of the US Dollar. This high value has greatly diminished returns for Australia's agricultural exports. The value of the Australian dollar is expected to remain high over the 2012/13 season and this will likely continue to constrain returns for agricultural exports.

Rainfall and Flooding in Eastern Australia

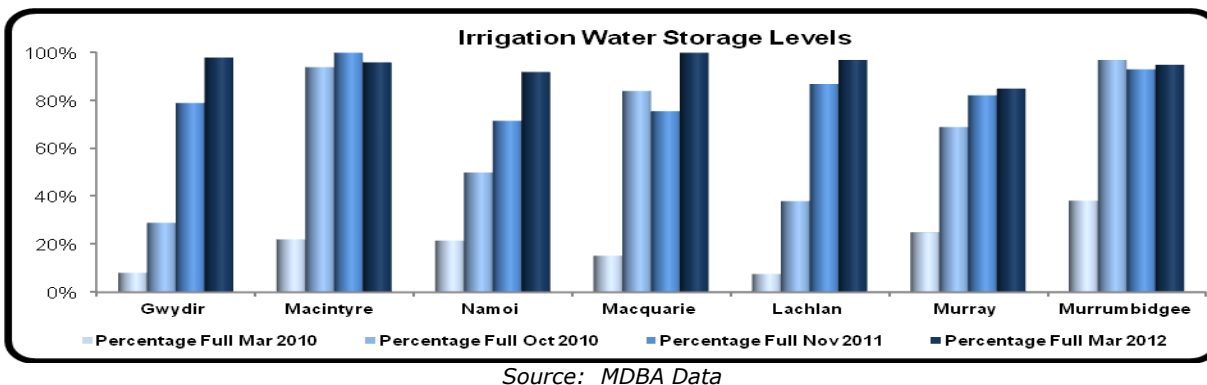
Eastern Australia has been experiencing "La Nina" weather conditions over the past two years and this has brought widespread heavy rainfall and, in the worst affected areas, record flooding events. Many records have been surpassed during this period – including the wettest seven day period on record. For the most intensively farmed agricultural regions of eastern Australia, this flooding event is regarded as similar to that of the early 1970's and the 1950's. However, this event has been even more severe for other less well known areas of inland Australia.



Source: BOM Data

Recent heavy rainfall and flooding have completely replenished previously depleted irrigation water storage dams. During nearly eight years of drought (which ended in December 2009), irrigation water availability steadily declined reaching zero for many irrigation farms. The chart below shows the dramatic improvement in irrigation water storage since the drought began to break at the end

of CY 2009. This improvement is likely to see production of irrigated crops return to levels more reflective of the longer term average.



Perhaps what is most interesting about the recent wet weather and flooding in Australia is that it has followed the longest running and most severe drought in recorded history. The drought, which began in CY 2002, ran until Christmas day on CY 2009. This greatly reduced crop production and depleted livestock numbers and drained water storage levels to record low levels.

Parts of inland Australia have received their heaviest rainfalls since records began over 124 years ago. Volumes of flow for some inland rivers have reached record levels as have some river depth indicators. At least one inland city received its monthly average rainfall (March 2012) by 9:00 am on the first day of the month.

Heavy rainfall has created flooding so widespread in western Queensland that it has been recorded clearly on satellite imagery. Lake Eyre, which resides in Australia's dry interior, has filled for the first time in around 40 years and for only the fifth time since 1885.

Looking forward, weather forecasters have reported that the "La Nina" weather conditions which have caused such heavy rainfall and flooding have now dissipated and more normal weather conditions can be expected over the near term.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:
<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>.

Title of Report	Date
Grain and Feed Annual 2012	12/02/20
Wine Annual 2012	12/03/15
Livestock and Product Semi-annual 2012	12/03/13
Grain & Feed Lock-Up – February 2012	12/01/24